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Directive 86-39: Excess Exemptions, Fiduciary Income

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FACTS: Taxpayer Jeffries is married and files a joint return. She and her husband have Part B (5%) pension income of \$10,000. Their Part B income after deductions is \$7,500. Their personal exemptions, and additional exemptions for reaching age 65 and having medical expenses, equal \$12,000. The Jeffries take their exemptions against their remaining Part B income, which reduces it to 0 and results in \$4,500 of excess exemptions. The Jeffries also have Part A (10%) income of \$2,000. In addition, Taxpayer Jeffries is the beneficiary of a taxable Massachusetts trust. Jeffries receives \$500 of Part B income and \$5,000 of Part A income from the trust during its taxable year.

ISSUE: How may Taxpayer Jeffries apply here \$4,500 of excess exemptions?

DISCUSSION: Section 3A of chapter 62 of the General Laws provides that any excess of the personal and other exemptions over Part B adjusted gross income after deductions, may be applied to reduce Part A adjusted gross income. G.L. c. 62, § 3A(b). Section 12A of that chapter allows a taxpayer who is the beneficiary of a taxable trust or estate to claim any excess exemptions not used on Form 1 against his or her share of income reported on the fiduciary income tax return, Form 2. G.L. c. 62, § 12A. With section 3A(b) taking precedence over section 12A, the interaction of these two provisions creates the order in which excess exemptions may be claimed. They must first offset any Part B income reported on Form 2 which is paid to or vested in the beneficiary. They must then be used against Part A income reported on Form 1. Finally, any remaining excess exemptions may be used to offset any Part A income reported on Form 2 which is paid to or vested in the beneficiary.

Where the taxpayer is the beneficiary of more than one trust or estate, excess exemptions must be allocated so that they offset all Part B fiduciary income before any Part A income.

In the case of fiscal year returns, the taxable year of the beneficiary ending with or within the fiduciary's taxable year is used for exemption carryover purposes.

To claim excess exemptions on Form 2 on behalf of a beneficiary, fiduciaries must complete Form 20A, Beneficiary's Claim for Exemptions Applicable to Fiduciary Income.

Where a beneficiary is not required to file an income tax return because of insufficient taxable income, fiduciaries must have the beneficiary complete a pro forma Form 1 and attach it to the Form 20A.

In the case of a husband and wife, excess exemptions may not be taken against Part A income, whether reported on Form 1 or Form 2, if they file separate income tax returns. G.L. c. 62, § 3A(b).

DIRECTIVE: Taxpayer Jeffries may apply her \$4,500 of excess exemptions to offset both her Part A income reported on Form 1 and her trust income reported on Form 2. She must apply the exemptions first against her \$500 of Part B income reported on Form 2. Next, she must offset here \$2000 of Part A income reported on Form 1. Finally, she may use the remaining \$2,000 to reduce her Part A income reported on Form 2.

REFERENCE: G.L. c. 62, §§ 3A(b), 12A

31 December 1986

/s/Ira A. Jackson

Ira A. Jackson
Commissioner of Revenue

This Directive represents the official position of the Department of Revenue on the application of the law to the facts as stated. The Department and its personnel will follow this Directive, and taxpayers may rely upon it, unless it is revoked or modified pursuant to 830 C.M.R. § 62C.01(5)(e). In applying this Directive, however, the effect of subsequent legislation, regulations, court decisions, Directives, and TIRs must be considered, and Department personnel and taxpayers may rely upon this Directive only if the facts, circumstances and issues presented in other cases are substantially the same as those set forth in this Directive.

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